

CDCI ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Citizens Bancshares Corporation (Citizens Trust Bank, wholly owed bank subsidiary)

Point of Contact:	James E. YoungCynthia N. Day	RSSD: (For Bank Holding Companies)	1078958
UST Sequence Number:	318	Docket Number: (For Thrift Holding Companies)	N/A
CPP/CDCI Funds Received:	7,462,000	FDIC Certificate Number: (For Depository Institutions)	8033
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	March 06, 2009	City:	Atlanta
Date Repaid ¹ :	N/A	State:	Georgia

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

☒ **Increase lending or reduce lending less than otherwise would have occurred.**

Having CDCI funds has helped Citizens Trust Bank avoid further reduced lending that may have been imposed by limitations placed on growth for preservation of capital. Though the Bank had some reduction in lending, in 2010 the bank funded over \$20 million in commercial and consumer loans.

☐ **To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).**

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☐ Increase securities purchased (ABS, MBS, etc.).

☐ Make other investments.

☒ Increase reserves for non-performing assets.

In 2010, the bank utilized approximately \$2.5 million of its earnings to fund its loan loss reserve. The CDCI capital infusion has continued to provide an additional buffer to ensure that the bank maintains its "well capitalized" position in a very difficult economic environment.

☒ Reduce borrowings.

The additional liquidity gained from the in-market deposits purchased in 2009 has allowed the Bank in 2010 to significantly reduce its borrowing level with core deposit funding in the Bank's market area.

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☐ Increase charge-offs.

☐ Purchase another financial institution or purchase assets from another financial institution.

☒ Held as non-leveraged increase to total capital.

The CDCI funds continue to afford the bank the ability to maintain a healthy capital cushion and reserves to be able to absorb unanticipated losses. Also it will allow us to continue to take advantage of lending opportunities to improve the economic development within our communities as they arise.

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What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

Operating in an industry that has experienced extreme and significant challenges as a result of the economic environment especially in the state of Georgia with a significant number of bank failures, the injection of CDCI funds has allowed Citizens Trust Bank to maintain a "well capitalized" position and an image of strength and soundness with our customers and in our market. We believe this sense of security also helped in the growth of the Bank's core deposits during 2010 by over \$12 million. The growth in core deposits allows the Bank to avoid wholesale funding markets in support of loan growth or liquidity. Core deposits are generally more stable and lower in cost when compared to wholesale funding which can also be volatile. Further, being in a well capitalized position has allowed the Bank to avoid formal regulatory scrutiny. It has also alleviated some of the pressure of a sole reliance on earnings which traditionally augments capital growth. Though the Bank remains profitable, it has become increasingly more difficult to generate earnings in a regulatory and economic environment that is placing immense pressure on all banks' earnings capacity. It should be further noted that access to capital for most financial institutions, specifically community banks, remains very difficult to obtain. This remains particularly problematic for community banks like Citizens Trust Bank that primarily operates in distressed market areas that are also predominately minority populated. Considering all such factors, if capital were available it would be prohibitively expensive and negatively impact the bank's overall mission. Consequently, the capital infusion continues to relieve us of the need to aggressively seek expensive funds from traditional capital markets in order to continue to fulfill our mission.

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What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

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Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.

The infusion of the CDCI funds allowed Citizens Trust Bank to acquire \$50 million of in-market deposits from a local institution. This provided the Bank with enhanced liquidity while providing immediate support for the "selling" bank. Having ample liquidity and a healthy capital base has positioned the Bank for greater lending capacity and future opportunities as the demand for credit improves and the economy experiences sustainable signs of stabilization. We have never stopped lending and continue to vigorously seek opportunities to lend. With continuing high unemployment rates and weakened economic conditions, we still find loan demand to be anemic with a limited number of borrowers that can even qualify for conventional community bank financing in the "new normal".